

EUROSAI seminar "Audit of Public Revenues – Exchange of Experience, Problems and Best Practice"

Prague 22 to 24 October 2014



EUROPEAN
COURT
OF AUDITORS

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Role of the ECA

- As the EU's external auditor it contributes to improving financial management and acts as the independent guardian of the financial interests of the citizens of the Union

Outputs

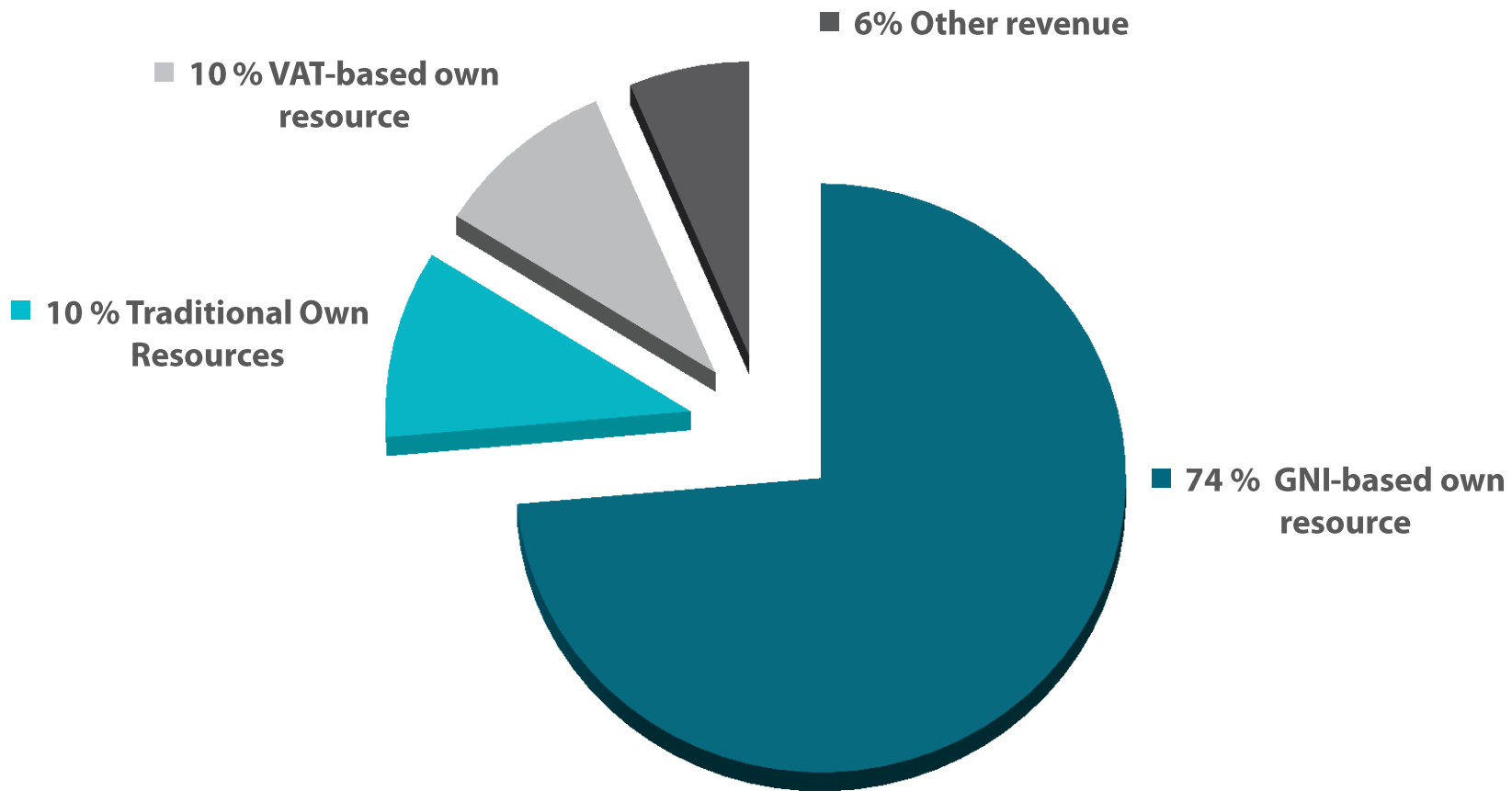
- An annual **Statement of assurance (DAS)** which assesses the legality and regularity of revenue and expenditure and the reliability of the Union's accounts. (= financial audit)
- **Special Reports** covering issues of performance and/or compliance in specific domains
- **Opinions** on potential budgetary effects of key proposed legislation



What do we audit?

Revenue of the EU budget

The EU budget is financed from own resources and other revenue wh



GNI and VAT – based own resources

- **GNI-based own resources** result from the application of a uniform rate to the Member States' GNI.
- Since the EU budget cannot run a deficit, the GNI-based resource was designed to play a budget-balancing role, but its importance has steadily increased over time, and it now represents by far the largest share of the total.
- **VAT-based own resources** are contributions resulting from the application of a uniform rate to Member State's notionally harmonised VAT bases. The VAT bases represent the total of taxable transactions which are harmonised among Member States to ensure equal treatment.
- Both, GNI and VAT-based own resources, thus most of the EU revenue, are based on macroeconomic statistics and estimates for which Member States are responsible. **The underlying statistical data cannot be audited directly.**
- **Annual financial audit** takes as its starting point the receipt by the Commission of the Member States' declarations and assesses the Commission's systems for processing the data until they are included in the final accounts. Thus our principal auditee is the European Commission.



Traditional own resources – TOR (1)

- TOR include
 - mainly **customs duties** charged on import of goods from Third Countries
 - **sugar levies** and charges paid by sugar producers.
- They are collected by Member States and paid to the Commission, after deduction of a collection cost allowance (25 %)
- Each Member State sends the Commission a monthly statement of collected duties (the «A account statement») and a quarterly statement of established duties which are not yet collected (the «B account statement», «separate accounts statement»).
- The principal risk to regularity in respect of TOR are the completeness, accuracy and timeliness of the duties made available to the Union.



Traditional own resources – TOR (2)

- The **annual financial audit** examines the supervisory and control systems that are employed to ensure the legality and regularity (completeness and accuracy) of the revenue.
- ECA examines the **Commission's treatment** of the statements of the duties submitted by the Member States.
- Every year ECA selects three **Member States** in order to assess their supervisory and control systems. We concentrate mainly on
 - the reliability of the underlying accounts sent to the Commission,
 - the management of the B accounts (separate accounts) which includes mainly recovery procedures,
 - national customs supervision – rotational approach to selected controls (e.g. ex-post controls, local clearance procedures) – this part of the annual audit can be compared to a small performance audit.



In the area of EU revenue

Performance audits = Special audits

- Performance audits in the area of the Union's own resources often combine both, **compliance** and **performance aspects**.
- The results of performance audits are published in «**Special Reports**» which are all available on the ECA website.
- ECA in its unique role can contribute to improving the revenue collection systems (namely customs duties, but also VAT) on EU level and in Member States by assessing their effectiveness and by identifying and disseminating best practices.
- Strong demand from **stakeholders** (EP, Council) to increase number of performance audits in revenue.



Most recent performance audits (GNI/VAT)

GNI-based own resource

- The Commission is verifying the Member States' GNI inventories (description of the methods and sources) used for compilation of National Accounts in five year's cycles.
- Last such cycle was finalised in 2012/2013. The ECA performed a **special audit** in order to assess the effectiveness of the work carried out by the Commission (Eurostat).

VAT-based own resource

- New audit started in 2014 on the effectiveness of the **EU Anti VAT fraud strategy**
- Does the control of **customs procedure 42** prevent and detect VAT evasion? (2011)



Most recent performance audits (TOR)

Traditional own resources

- Are **simplified customs procedures** for imports effectively controlled? (2011)
- Are **preferential trade arrangements** («PTAs») appropriately managed? (2014)



Practical experience; problems encountered



Performance audits – problems encountered (1)

Difficulties in finding standards based on which we establish our control model

- The sources of standards are usually found at international organisations, project groups on EU level, European Commission.

Examples

- *audit on simplified procedures*: World Customs Organisation - SAFE Framework Standards (standards to secure and facilitate global trade); General annex guidelines, Chapter 6 of the Kyoto convention; good practices from 3rd countries by addressing a questionnaire to a sample of them (often different schemes, difficulty to apply to the EU procedures)
- *audit on procedure 42*: Fiscalis Project Group No. 29
- *PTA audit*: OECD publication «Tax expenditures in OECD countries»
- *VAT fraud audit*: OECD standard for taxation of e-commerce; OECD International VAT/GST guidelines; «Article 12 report» (provides a benchmark on VAT collection) and Report on administrative cooperation, both issued by DG TAXUD
- Performance indicators used by the European Commission (Activity Based Budgeting)



Performance audits – problems encountered (2)

Control model

- The Member States' practices are compared to a control model
- The control model is based on the standards selected and used to compare Member States practices (similar to benchmarking). The control model is always discussed with the European Commission, before the actual start of the audit.

Selection of Member States to visit

- Not all Member States can be visited (time and resources constraints)
- Which criteria to be used (size of contribution, risk analysis, survey)
- Often «big contributors» visited and «small contributors» subject to a desk review
- We do not have access to Member States' data before the approval of the Audit Planning Memorandum; the planning is usually based on statistical data available at the European Commission, reports, CIRCA database (we do not have access to all interest groups), our own audit history (e.g. information from financial audits)
- It would be useful to have access to data even before selecting the audit topic



Performance audits – problems encountered (3)

Execution phase

The main problems encountered during the execution phase of the performance/special audit:

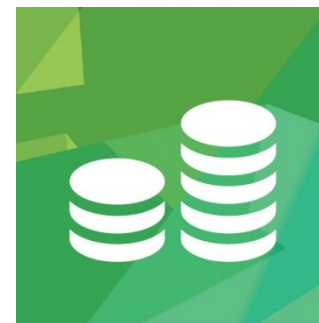
- Difficulty to explain the auditee what the performance audit is about – that we do not intend to compare to the legislation but to best practice.
- Difficulty to access full information from Member States (tax secrecy, statistical secrecy); refusal to be audited (Germany - COJ judgment C-539/09)
- Long delays in data collection – e.g. circularisation (letters of confirmation to the Member States of destination of the goods, used for procedure 42 audit)
- Interpretation/ translation: Correctly and timely



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Reform of own resources

Agreed limited changes for 2014 - 2020



- In 2011, the European Commission put forward proposals with a view to reshaping the system of EU own resources and improving its functioning. However in February 2013, the European Council agreed only on a **limited number of modifications**. The adopted legal acts still need to be ratified by all Member States, therefore there is currently no impact on our audit work.
- In a joint declaration accompanying the agreed 2014-20 Multiannual Financial Framework, Parliament, Council and the European Commission decided to establish a high-level group prepare a possible overhaul of the system.



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